

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

MYSPACE, INC.,
Plaintiff,
v.

No. C-10-0604 EDL
No. C-10-1156 EDL
Consolidated Actions

GRAPHON CORPORATION,
Defendant.

**ORDER DENYING WITHOUT
PREJUDICE DEFENDANT'S MOTION
TO REALIGN PARTIES AND
GRANTING PLAINTIFFS' MOTION
FOR EARLY HEARING ON
INEQUITABLE CONDUCT**

CRAIGSLIST, INC.,
Plaintiff,
v.

GRAPHON CORPORATION,
Defendant.

Before the Court are Defendant's Motion to Realign the Parties and Set Order of Proof and Plaintiffs' Motion for Early Hearing on Inequitable Conduct. On July 15, 2010, the Court held a hearing on both motions. For the reasons stated at the hearing and in this Order, Defendant's Motion to Realign the Parties is denied without prejudice and Plaintiffs' Motion for Early Hearing on Inequitable Conduct is granted.

Motion to Realign the Parties

Plaintiff MySpace filed its declaratory judgment complaint on February 10, 2010, involving U.S. Patent Nos. 6,324,538; 6,850,940; 7,028,034; and 7,269,591. On March 17, 2010, Defendant

1 filed an answer and a counterclaim seeking damages for infringement of the patents-in-suit. Plaintiff
 2 craigslist filed its declaratory judgment complaint on March 18, 2010, involving the same patents as
 3 the MySpace action. On April 8, 2010, Defendant filed an answer and counterclaim seeking
 4 damages for infringement of the patents-in-suit. craigslist filed a separate first amended complaint,
 5 to which Defendant answered. The cases were related on April 15, 2010, consolidated on May 14,
 6 2010, and reassigned to this Court on June 10, 2010.

7 In this motion, Defendant seeks to realign the parties so that Defendant is designated as the
 8 plaintiff and Plaintiffs are designated as the defendants. In the alternative, Defendant seeks an order
 9 changing the order of proof at trial. Realignment of the parties is within the Court's discretion. See
 10 Fresenius Medical Care Holdings v. Baxter International, 2006 WL 1646110, * 1 (N.D. Cal. June
 11 12, 2006); Plumtree Software, Inc. v. Datamize, 2003 WL 25841157 (N.D. Cal. Oct. 6, 2003).

12 Because this case is in its infancy, realignment of the parties is premature. Therefore,
 13 Defendant's Motion to Realign is denied without prejudice. If Defendant brings a similar motion
 14 closer to trial, the Court would consider changing the order of proof at trial and/or requiring the
 15 parties to call themselves by their business names at trial rather than by "Plaintiff" or "Defendant."

16 **Motion for Early Hearing**

17 A court may order a separate trial "for convenience, or to expedite and economize." Fed. R.
 18 Civ. P. 42(b). Factors to be considered when deciding whether to bifurcate a trial include:
 19 complexity of issues, factual proof, risk of jury confusion, difference between the separated issues,
 20 the chance that separation will lead to economy in discovery, and the possibility that the first trial
 21 may be dispositive of the case. Calmar, Inc. v. Emson Research, Inc., 850 F. Supp. 861, 866 (C.D.
 22 Cal. 1994). Bifurcation should be ordered only when it will result in judicial economy and will not
 23 unduly prejudice any party. Id. at 865. Whether and how to bifurcate trials is a matter left within
 24 the sound discretion of the district court. See Shum v. Intel Corp., 499 F.3d 1272, 1276 (Fed. Cir.
 25 2007). Here, Plaintiffs argue that the Court should conduct an early hearing on the issue of
 26 inequitable conduct. Defendant opposes an early hearing.

27 At the July 15, 2010 hearing, the parties agreed that it is within the Court's discretion
 28

whether to hold an early hearing on inequitable conduct.¹ Courts have permitted an early hearing in some cases and declined to do so in others. Compare, e.g., Agfa Corp. v. Creo Prods., Inc., 451 F.3d 1366, 1373 (Fed. Cir. 2006) (holding that trial court's decision to hold a bench trial on inequitable conduct did not preclude later bench trial on issue of patent's validity); Gardco Mfg., Inc. v. Herst Lighting Co., 820 F.2d 1209, 1213 (Fed. Cir. 1987) (holding there was no abuse of discretion where trial court held bench trial on inequitable conduct prior to jury trial on infringement and validity); SanDisk Corp. v. STMicroelectronics, Inc., 2009 U.S. Dist. LEXIS 45931, at *9 (N.D. Cal. May 19, 2009) (finding that convenience and judicial economy would be best served by trial on inequitable conduct prior to jury trial on legal issues where a finding of inequitable conduct could moot the infringement claim, but a finding of no inequitable conduct could moot the Walker Process fraud claim), with, e.g., Informatica Corp. v. Business Objects Data Integration, 2007 WL 607792, *4 (N.D. Cal. Feb. 23, 2007) (trying inequitable conduct issues after jury trial); Visto Corp. v. Seven Networks, Inc., 2006 WL 3741891, at *1 (S.D. Tex. Dec. 19, 2006) (holding bench trial on inequitable conduct after jury trial on legal issues); Mag Instrument, Inc. v. J. Baxter Brinkmann, 123 F.R.D. 543, 547 (N.D. Tex. 1988) ("Moreover, a prior trial of the inequitable conduct defense would not serve any of the purposes of Rule 42(b). Because this defense involves the extremely vital issue of patent enforceability, the trial is likely to occupy a great deal of time. If the defense is found not to be meritorious, then this time would be wasted."). The Court must examine the particular circumstances of this case to determine whether an early hearing is appropriate.

In determining whether to hold an early hearing on Plaintiffs' inequitable conduct claim, the Court has examined whether Plaintiffs appear to have potentially meritorious arguments regarding inequitable conduct, although the Court has not reached a decision, even preliminarily, on the ultimate merits. On balance, the Court exercises its discretion to grant Plaintiffs' motion and hold an early hearing on inequitable conduct, but on a less rapid schedule than originally proposed by

¹ The parties also agreed that the Court's decision on this issue did not implicate the Seventh Amendment right to jury trial in this case.

1 Plaintiffs.²

2 On the whole, Plaintiffs' inequitable conduct claim does not appear to be a mere kneejerk
3 reaction to Defendant's assertions of patent infringement. Plaintiffs argue that Defendant has
4 engaged in inequitable conduct in three ways. First, Plaintiffs argue that Defendant failed to
5 disclose related litigation to the Patent and Trademark Office ("PTO") during prosecution of the
6 patents-in-suit. See Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223, 1234 (Fed. Cir. 2007) ("It is
7 clear from the language of [Manual of Patent Examining and Procedure] § 2001.06(c) that the
8 existence of the litigation itself is material information that an examiner needs to have. It is
9 important because it signals the examiner that other material information relevant to patentability
10 may become available through the litigation proceedings."). For example, Plaintiffs allege that the
11 patent applicants failed to disclose to the PTO the existence of litigation that Defendant's
12 predecessor brought against eBay, Network Engineering Software v. eBay, C-99-1433 MJJ (BZ)
13 (N.D. Cal., filed March 23, 1999), failed to disclose prior art references until after the first patent
14 asserted in this case was allowed, and then buried the references within 236 other references, and
15 never disclosed any eBay litigation materials. Compl. ¶¶ 91-105; Reid-Ashman Mfg., Inc. v.
16 Swanson Semiconductor Serv., LLC, 2007 WL 1394427, at *6-7 (N.D. Cal. May 10, 2007)
17 (obscuring prior art by burying it among voluminous other less relevant prior art may constitute
18 inequitable conduct).

19 Defendant argues that it disclosed lengthy lists of prior art for the '034 and '591 patents,
20 including all prior art cited by the defendant in the eBay litigation, in its Information Disclosure
21 Statements filed in connection with the '034 and '591 patents. Defendant also states that the PTO
22 was aware of the eBay case because the district court submitted the PTO's Report on Filing or
23 Determination of an Action Regarding Patent Infringement form. However, the filing of a Report on
24 Filing or Determination of an Action Regarding Patent Infringement may potentially be insufficient

25
26 ² Defendant has provided the Court with an order from the Eastern District of Texas in
27 GraphOn Corp. v. Classified Ventures, LLC, et al., Case No. 2:08-CV-097, in which the court denied
28 a similar motion for an early hearing on inequitable conduct brought by the defendant in that case which
was represented by the same counsel as the defendant in this case. See Rounds Decl. Ex. 7. The Court,
however, has evaluated the motion under the circumstances of this case and has reached a different
conclusion.

1 to constitute disclosure based on guidance contained in the Manual of Patent Examining and
2 Procedure. See Manual of Patent Examining and Procedure (“MPEP”) § 2001.06(c) (“At a
3 minimum, the applicant should call the attention of the Office to the litigation, the existence and the
4 nature of any allegations relating to validity and/or ‘fraud,’ or ‘inequitable conduct’ relating to the
5 original patent, and the nature of litigation materials relating to these issues. Enough information
6 should be submitted to clearly inform the Office of the nature of these issues so that the Office can
7 intelligently evaluate the need for asking for further materials in the litigation.”). Moreover,
8 Plaintiffs note that the form Report is completed by a court clerk, not a lawyer, from the court in
9 which a patent infringement case is filed (see Docket No. 5), and argue that the Report does not
10 become part of the file history at the PTO, so disclosure of the prior litigation on the form does not
11 satisfy Defendant’s disclosure obligations.

12 Defendant responds that a court clerk’s notice to the PTO makes it “highly plausible” that the
13 examiner was aware of a pending patent dispute. Omax Corp. v. Flow Int’l Corp., 2006 WL
14 3249191, at *2 (W.D. Wash. Nov. 7, 2006). However, if Defendant did not provide material
15 information to the PTO other than the court’s notice, it may not have satisfied its disclosure
16 obligations.

17 Second, Plaintiffs argue that Defendant intentionally failed to disclose to the PTO the best
18 mode of practicing the claimed invention. See Consol. Aluminum Corp. v. Foseco Int’l Ltd., 910
19 F.2d 804, 807-09 (Fed. Cir. 1990) (“Because disclosure of the best mode is statutorily required, see
20 35 U.S.C. § 112, failure to disclose the best mode is inherently material and, we believe, reaches the
21 minimum level of materiality necessary for a finding of inequitable conduct.”). Specifically, the
22 patents-in-suit state:

23 Although various methods of processing credit card transaction on-line have been
24 proposed, with various degrees of attendant security, such processing is preferably
25 performed in accordance with a proprietary method developed by the assignee to
provide the highest level of security possible.

26 See ‘538 patent, col. 10, ll. 11-16; ‘940 patent, col. 10, ll. 15-20; ‘034 patent, col. 10, ll. 20-25; ‘591
27 patent, col. 10, ll. 21-26. Plaintiffs argue that the patents never identify the preferable method.

28 John Goolkasian, Defendant’s expert in the prior case by Defendant against Autotrader.com,

1 opined that secure pay-for-service is not an element of the claimed invention, so no best mode
2 requirement is necessary. See Rounds Decl. Ex. 2 at ¶ 31. Further, even if secure pay-for-service is
3 an element of the claim, Defendant's expert opined that the best mode was disclosed in the
4 specification, and that the best mode requirement was met here where the information in the
5 specification is sufficient to enable a person skilled in the art to use the best mode. See id.

6 Plaintiffs' expert, however, has opined to the contrary. Supp. Davidson Decl. Ex. 8 at ¶ 59.
7 For example, Plaintiffs' expert points to deposition testimony of one of the named inventors of the
8 '538 patent in which he testified that the combination of a secure transaction server and a firewall
9 provided the best servicing. Supp. Davidson Decl. Ex. 8 at ¶ 55.

10 On its own, Plaintiffs' argument that Defendant failed to disclose the best mode does not
11 necessarily support an early hearing on inequitable conduct because evidence going to the best mode
12 analysis will go not only to Plaintiffs' inequitable conduct defense, but also to the validity issue.
13 Thus, the savings of judicial resources would not be great. However, when combined with
14 Plaintiffs' other arguments in support of inequitable conduct, the best mode argument adds weight to
15 a decision to hold an early hearing.

16 Third, Plaintiffs argue that Defendant failed to disclose material co-pending applications to
17 the examiners in the patent-in-suit. See McKesson Info. Solutions v. Bridge Med., Inc., 487 F.3d
18 897, 917-19 (Fed. Cir. 2007) ("Patent disclosures are often very complicated, and different
19 examiners with different technical backgrounds and levels of understanding may often differ when
20 interpreting such documents. Although examiners are not bound to follow other examiners'
21 interpretations, knowledge of a potentially different interpretation is clearly information that an
22 examiner could consider important when examining an application.") (internal citation omitted).
23 For example, Plaintiffs argue that Defendant failed to disclose the '956 application, which they
24 argue was material and had previously been rejected, to the patent examiners in the patents-in-suit,
25 even though both the application and the patents-in-suit involved a method of charging users' credit
26 cards over the internet. As described above, Defendant's expert in the Autotrader.com litigation
27 opined at least with respect to the '538 patent, that the '956 application was not material because
28 claims 2 and 3 of the '538 patent did not claim the secure credit card processing described in the

1 '956 application. Rounds Decl. Ex. 2 at ¶¶ 25-31. Defendant expects similar conclusions as to the
2 other patents-in-suit. However, if Defendant improperly failed to disclose the '956 application and
3 the application was material, a court could find inequitable conduct.

4 In short, Plaintiffs' inequitable conduct claim appears to raise potentially significant issues,
5 and these issues are further developed than is typical at this early stage of the case because of the
6 prior litigation over the patents-in-suit. Thus, a relatively early hearing on inequitable conduct is
7 appropriate under the circumstances. There are, however, several factors that weigh in the Court's
8 decision as to the timing of the hearing.

9 Defendant argues that extensive claim construction must take place prior to a hearing on
10 Plaintiffs' claims of inequitable conduct, so that the Court can determine what is and is not material
11 in connection with disclosure to the PTO. See Eli Lilly & Co. v. Barr Labs., Inc., 251 F.3d 955, 963
12 (Fed. Cir. 2001) ("The extent of information that an inventor must disclose depends on the scope of
13 the claimed invention."); MPEP § 2001.06(c) ("Where the subject matter for which a patent is being
14 sought is or has been involved in litigation, the existence of such litigation and any other material
15 information arising therefrom must be brought to the attention of the U.S. Patent and Trademark
16 Office."); Allvoice Computing PLC v. Nuance Communications, 504 F.3d 1236, 1243 (Fed. Cir.
17 2007) ("Because the claims represent "the subject matter which the applicant regards as his
18 invention," subject matter outside the scope of the claims also falls outside the scope of the best
19 mode requirement."). For example, Defendant argues that the Court must interpret certain claims
20 for at least three of the patents-in-suit in order to decide whether Defendant engaged in inequitable
21 conduct by failing to disclose the '956 application. Furthermore, Defendant argues that before the
22 Court can determine whether Defendant violated the best mode requirement by failing to disclose
23 the '956 application, the Court must determine whether the best mode requirement even applies to
24 the secure credit card processing described in the specification. Defendant also notes that the Texas
25 court in the Autotrader.com litigation construed claims from two patents-in-suit (the '538 and '940
26 patents), but did not decide the issue of whether claims 2 and 3 of the '538 patent require secure
27 online credit card processing. See Opp. at 11 (citing Def.'s Ex. 1 at 2). Defendant also argues that
28 "most certainly other claim construction issues that will arise as well." Opp. at 11.

1 Plaintiffs counter that claim construction is not necessary because claims are given their
2 broadest reasonable construction consistent with the specification in the context of determining
3 materiality. See Digital Control, Inc. v. Mach. Works, 437 F.3d 1309, 1314 (Fed. Cir. 2006).
4 Moreover, Plaintiffs argue that claim construction is not necessary to decide some of the inequitable
5 conduct issues raised in this case because Defendant's failure to disclose to the PTO litigation
6 involving patents with identical specifications and similar claims to the continuation applications at
7 issue here that Defendant was prosecuting at the time is material regardless of how the claims are
8 construed. Plaintiffs also argue that the construction of claims 2 and 3 of the '538 patent is not
9 necessary because regardless of whether the claims are read to require "simply charging a fee,
10 charging a fee by credit card, securely charging a fee by credit card, or securely charging a fee by
11 credit card online," Defendant failed to disclose the best mode of practicing the claims. Reply at 4.

12 It appears to the Court that while some claim construction may perhaps be necessary, it will
13 not be extensive. Further, the hearing can be scheduled so as to permit limited claim construction
14 before or in conjunction with the inequitable conduct hearing.

15 The Court is also not convinced by Defendant's argument that extensive fact and expert
16 discovery is necessary prior to a hearing on inequitable conduct. Defendant argues that it may need
17 to depose former patent prosecution attorneys William Wilbar, who resides in Singapore, Robert
18 Irvine, Robert Worrall and Frank Nicholas. Defendant argues that the depositions taken by the
19 plaintiff's counsel in the Autotrader.com litigation did not address the inequitable conduct issues in
20 this case because only the non-disclosure of the '956 application and file history was at issue in the
21 Texas case. Plaintiffs, however, have provided evidence when these four individuals were deposed
22 in connection with the Autotrader.com litigation, none of them were particularly knowledgeable
23 about the prosecution of the patents-in-suit. See Supp. Davidson Decl. Ex. 4 at 70 (Irvine Depo.)
24 ("Q: What role did MBHB play in the prosecution of this application? A: You know, I don't
25 know."); Ex. 5 at 18 (Nicholas Depo.) ("we didn't -- as far as prosecution, I don't think there was
26 much, if I remember right."); Ex. 6 (Worrall Depo.) ("Q: Do you remember anything about this
27 application? A: Not a whole lot."); Ex. 7 (Wilbar Depo.) ("Q: Are you prepared to testify on any of
28 these topics? A: I couldn't tell you, to tell the truth, I mean, not really."). The Court is mindful of

Defendant's argument that only two of the patents-in-suit in this case were at issue in Autotrader.com, but the two patents that were not part of the Autotrader.com litigation were apparently prosecuted by Timothy Brisson, who was and is Defendant's general counsel. See Supp. Davidson Decl. Ex. 1 at 3. Thus, Defendant is free to speak to Mr. Brisson at its convenience in preparation for an inequitable conduct hearing.

Defendant also argues that it needs to engage in expert discovery prior to an inequitable conduct hearing on the issues of the materiality of the prior art to the '956 application, as well as whether prosecution counsel acted reasonably in the prosecution of the applications at issue. See Rounds Decl. ¶ 5. Plaintiffs argue that expert discovery regarding Defendant's failure to disclose the '956 application and the intentional concealment of the best mode of practicing certain claims of the patents-in-suit was completed in the Autotrader.com case, and that no additional expert testimony is necessary regarding the failure to disclose prior litigations and litigation materials, all of which relate to the applications and patents at issue here. In any event, because the Court will set the hearing on a less accelerated schedule than originally proposed by Plaintiffs, there will be some time for limited focused fact and expert discovery on the relevant issues.

One special factor bearing on the timing as well as potentially the outcome of any hearing on inequitable conduct is the pendency of the substantive question of the appropriate standard to apply at such a hearing before the Federal Circuit sitting en banc. Therasense, Inc. v. Becton, Dickinson & Co., 593 F.3d 1289 (Fed. Cir. 2010).³ Thus, it is possible that the current standard for determining the issue of inequitable conduct could be significantly revised in the near future. According to the parties, the en banc hearing for Therasense is scheduled for November 9, 2010. In the interest of judicial economy, the Court is not inclined to decide the inequitable conduct issues in this case prior

³ The Federal Circuit sought briefing on the following issues: "1. Should the materiality-intent-balancing framework for inequitable conduct be modified or replaced? 2. If so, how? In particular, should the standard be tied directly to fraud or unclean hands? If so, what is the appropriate standard for fraud or unclean hands? 3. What is the proper standard for materiality? What should the United States Patent and Trademark Office's rules play in defining materiality? Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued? 4. Under the circumstances is it proper to infer intent from materiality? 5. Should the balancing inquiry (balancing materiality and intent) be abandoned? 6. Whether the standards for materiality and intent in other federal agency contexts or at common law shed light on the appropriate standards to be applied in the patent context." Therasense, 2010 WL 1655391, at *1 (Fed. Cir. Apr. 26, 2010) (internal citations omitted).

1 to the Federal Circuit's en banc decision.

2 On balance, the Court exercises its discretion to hold a hearing on inequitable conduct prior
3 to the jury trial on the legal claims in this case. Accordingly, Plaintiffs' Motion for Early Hearing
4 on Inequitable Conduct is granted. However, the Court believes that having the benefit of the
5 Federal Circuit's decision in Therasense prior to holding the hearing on inequitable conduct would
6 serve judicial economy as well as the efficient use of the parties' resources. Although the Court
7 cannot predict when the Federal Circuit will issue its ruling, the Court will schedule the inequitable
8 conduct hearing to begin on January 18, 2011 at 8:30 a.m. A pre-hearing conference shall be held
9 on January 11, 2011 at 2:00 p.m. The parties shall meet and confer and jointly propose pretrial
10 deadlines, including, if necessary, a schedule for claim construction prior to or as part of the hearing,
11 and limited fact and expert discovery. The Court is also mindful that the parties disagree on the
12 number of days that will required for the hearing. The parties should also meet and confer to
13 propose a realistic number of days for the hearing. The parties' joint proposals shall be filed no later
14 than August 20, 2010.

15 The Court notes that the January 18, 2011 hearing may be continued if the Federal Circuit
16 has not issued its decision in Therasense. The Court also notes that it currently has several jury
17 trials scheduled throughout January and February 2011, which may necessitate continuing the
18 hearing on inequitable conduct.

19 **IT IS SO ORDERED.**

20 Dated: August 5, 2010

Elizabeth D. Laporte

ELIZABETH D. LAPORTE
United States Magistrate Judge